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COMPANY: ORANGE AND ROCKLAND UTILITIES, INC. REVISION: 4
INITIAL EFFECTIVE DATE: 08/01/00 SUPERSEDING REVISION: 1
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GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS (Cont'd.)

12.1 APPLICABLE TO SERVICE CLASSIFICATION NOS. 1 AND 2 (Cont'd.)

(E) Average Cost of Gas (Cont'd.)

(2) Balancing Cost

Balancing costs shall be equal to the sum of the Companies' annualized fixed storage charges and fixed pipeline transportation charges from storage to the pipeline delivery point(s) at the boundary of the Companies' service territories.

The balancing cost shall be allocated to each company using a fixed percentage. The fixed percentage is based on the ratio of each Company's balancing cost as of June 30, 2000.

The Company's share of balancing costs shall be reduced by all costs recovered via the Balancing Charge for service rendered under Service Classification No. 6.

The Company's share of balancing costs, adjusted as specified above, shall be divided by the forecast quantities of gas to be taken for delivery to the Company's firm sales customers for the 12 calendar months ending the following August 31.

(3) Variable Cost

Variable gas costs include purchased gas cost, storage gas cost, alternate gas supplies, i.e., liquefied natural gas, liquefied propane gas, and propane-air, variable transportation costs, fuel retention costs, applicable surcharges and taxes, and the cost associated with risk management programs.

The variable cost of the Companies shall be determined by:

- (i) applying the variable rates and charges of the transporters, storage and peaking providers, and suppliers to the billing determinants associated with transportation, storage and peaking, and gas supply for the forecasted weather normalized quantities of gas to be taken for delivery to the Companies' firm sales customers during the month in which the gas adjustment will be in effect, adjusted further for the costs associated with risk management programs; and

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(Name of Officer, Title, Address)